Call to arms: Defence spending increase supports manufacturing

By James Caldwell

The Australian Federal Government’s commitment to raise defence spending to 2.0% of GDP by 2020-21 is anticipated to boost revenue for the Shipbuilding and Repair Services industry and the Aircraft Manufacturing and Repair Services industry.

Over the past five years, the Federal Government has committed to improving the operational capacity of its military forces, to ensure it can continue to protect the country’s territorial integrity, and its interests around the globe. The 2016 Defence White Paper (DWP) outlined a renewed strategic approach for the Defence industry, with a focus on the Indo-Pacific region, conflict in the Middle East and the need to combat growing global security concerns. The central plank in achieving these aims is the commitment to raise Australia’s defence expenditure to 2.0% of GDP by 2020-21.

As the Federal Government has edged closer to this target, the Defence industry has grown at an annualised 5.6% over the five years through 2018-19, to total $37.6 billion.

Expenditure on the ongoing Joint Strike Fighter program, and the construction of 12 new submarines to replace the existing Collins-class fleet will assist the Federal Government’s push towards its 2.0% of GDP target. The procurement of these assets is expected to provide a substantial boost to the Aircraft Manufacturing and Repair industry, and the Shipbuilding and Repair Services industry.

The Royal Australian Air Force has committed to purchase 73 Joint Strike Fighters from US-based supplier Lockheed Martin and has plans to order a further 28. While these aircraft will be primarily constructed in the US, many of their components are to be manufactured by Australian firms, boosting demand for domestic aircraft manufacturing. As a result, revenue for the Aircraft Manufacturing and Repair Services industry is anticipated to grow at an annualised 3.0% over the next five years.

In addition, the acquisition of these aircraft provides an opportunity for the industry’s domestic manufacturers to provide through-life support services to maintain the fleet, likely sustaining revenue growth well into the future.

The Royal Australian Navy has also committed to expand its military assets through the update of its Collins-class submarine fleet, at a cost of $50 billion. This acquisition has been contracted to the Naval Group of France, under the condition that at least 60% of construction takes place in Australian shipyards. As this project is still in its design phase, it is yet to have a positive impact on the revenue of the Shipbuilding and Repair Services industry. However, this project is anticipated to support the
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Shipbuilding and Repair Services industry’s projected annualised growth of 6.0% over the next five years.

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